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"To enrich lives through effective and caring service"

May 12, 2016

To: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Dave Chittenden
Chief Deputy Director

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Joseph Kelly
Treasurer and Tax Collector

A handwritten signature in dark ink, appearing to read "Joseph Kelly", is written over the printed name and title.

QUARTERLY REPORT ON COUNTY RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY (PACE) PROGRAM PROGRESS, CONSUMER PROTECTIONS AND PROGRAM IMPROVEMENTS

Background

On December 31, 2015, the Internal Services Department (ISD) and the Treasurer & Tax Collector (TTC) issued a report to your Board in response to issues raised about the residential PACE program at the November 3, 2015 Board Meeting. In that report, ISD and TTC indicated their intent to report back quarterly throughout 2016 on the status of the program and these improvements.

It is important to note that effective January 2016, we instituted a monthly in person meeting with an executive representative of each of the two Program Administrators, Renovate America/HERO and Renew Financial/CaliforniaFIRST. In certain instances, when an issue has warranted it, we have conducted teleconferences to disposition a matter apart from the regular meeting cycle. We also conducted site visits to each of the Program Administrator's offices. Collectively, these steps have helped to increase our level of understanding of each of the Program Administrator's administrative and compliance processes, particularly related to their disposition of consumer complaints and their monitoring of their contractor networks. We have committed to continue this partnership of communication at this executive level through the remainder of this calendar year, and further if warranted. This focus on executive level dialogue and program oversight has served to complement, not replace efforts at the staff level, and it has improved the overall coordination among the ISD, the TTC and the Program Administrators.

Program Progress Update

The County's residential PACE program continues to show market demand and growing participation. Relevant statistics are indicated in the table below.

DESCRIPTION: The data within this report is compiled from the two program administrators: Renovate America/HERO and Renew Financial/California First.					
PROGRAM DATA: (As of 03-31-2016)					
Applications Submitted	Applications Approved By ISD	Value Approved by ISD (\$)	Completed Projects	Value of Completed Projects (\$)	Avg. Value of Completed Projects (\$)
31,879	15,300	\$364,000,000	9,801	\$217,448,192	\$22,186
BY SUPERVISORIAL DISTRICT:					
Supervisory District	Applications Approved By ISD	Completed Projects	Value of Completed Projects (\$)	Avg. Value of Completed Projects (\$)	
District 1	2,807	1, 596	\$33,573,00	\$21,076	
District 2	3,254	2,048	\$46,865,000	\$22,883	
District 3	2,397	1,400	\$36,008,000	\$25,720	
District 4	3,543	2,523	\$52,721,000	\$20,896	
District 5	3,574	2,234	\$48,266,000	\$21,605	

An emphasis in the December 31, 2015 report was on enhancing consumer protections and implementing improvements in the County's administrative processes. The table below indicates the total number of complaints received by the PACE Program Administrators since the program launch in June of 2015. The table also indicates the nature of the complaints and how the complaints have progressed through the complaint resolution processes.

COMPLAINT TRACKING: (As of 03-31-2016, due to variances in reporting, some resolution durations are estimated)						
Complaint Type	Number of Complaints	Average Days Until Resolution	Closed in 7 or Less Days	Closed in 8-14 Days	Closed in 15+ Days	Still Unresolved
Contractor Conduct	59	11	32	4	23	7
Multiple Issues	10	19	3	3	4	0
Contracting/Financing Process	107	9	70	15	22	8
Terms of Financing	209	11	103	34	72	36
Project Workmanship	323	13	153	76	94	62
Grand Total	708	12	---	--	---	113

The definitions used in the table above are explained here.

Complaint: A call received by the PACE Program Providers citing a specific issue that required escalation for resolution.

Resolution: The PACE Program Provider has acted on the complaint and received verification from the original caller that they are satisfied with the action.

Unresolved: The PACE Program Provider and the original caller are still discussing resolution.

The number of complaints expressed as a percentage of applications approved by ISD (15,300) is 4.6%, While we do not have a benchmark against which we could compare these statistics, each Program Administrator has established a reasonable consumer complaint investigation and disposition process, as required under the contract, which we reviewed on each of the site visits.

Consumer Protection and Program Improvements

In the December 31, 2015 report, we proposed the following actions in our continued efforts to enhance program oversight and consumer protections:

Review Marketing Materials to Limit Risks of Inability to Pay

Concerns were raised at the November 3, 2015 Board meeting regarding Program Administrator marketing materials and advertisements that used the County seal, that implied time constraints existed on applying for a PACE assessment, and that indicated the amount of financing available to a homeowner under PACE. As a result, ISD directed to both program providers that direct marketing and outreach mailings must be approved by ISD, TTC and the CEO Public Information Officer. Also, the Program Administrators were advised that they could not use the County seal in direct marketing and outreach without Board approval to do so (as recommended by County Counsel after the Board meeting). To date there have been no requests for this approval.

Additionally, we recommended a review and approval of all contractor marketing materials. However, the Program Administrators stated that they do not review all contractor marketing materials given the high volume of contractors enrolled in their programs and the rapid change in contractor marketing approaches. Rather, each Program Administrator issues contractor marketing guidelines, which are reviewed and approved by our offices. If a contractor fails to comply with the guidelines and that comes to the attention of the Program Administrator, each will review the matter and impose a corrective action which may include formal discipline of the contractor. In the few instances in which our offices became aware of such matters and referred them to one of the Program Administrators for review, the corrective action plan was developed timely and appeared reasonable.

Consumer Protections in All Phases of a PACE Project

PACE program providers have implemented senior advocacy processes within their respective programs to address specific concerns about seniors being targeted or oversold on PACE projects.

Also, in anticipation of questions and other inquiries that could arise when the PACE assessments appear on the 2016-2017 Annual Secured Property Tax Bills that the Tax Collector will mail in October 2016, both Program Administrators plan to send a notice to each homeowner who will have a PACE assessment reminding the homeowner that the homeowner elected to have the project's costs repaid over time through an assessment on the Annual Secured Property Tax Bill. The Tax Collector has reviewed and approved each notice.

Automating the County's review of the application process to free staff resources to review transactions that fall outside acceptable ranges and identify trends that indicate degradation of consumer protections.

Assessment Contract review: In November 2015, ISD reported that implementation of the electronic transfer of data and the development of programs to automate the review of assessment contracts was 'imminent'. Unanticipated technical issues and the need to formalize this data transfer as a contractual agreement delayed the completion of this effort. ISD and Renovate America executed a Data Transfer Agreement in March 2015, which provides Assessment Contract information and detailed technical information about the improvement measures requested. Initial data transfers have been completed and ISD has confirmed the accuracy of the data. Programming work to automate the review of assessment contracts is expected to be completed in mid-May.

The Assessment Contract information described above omits other, key datasets about homeowners, property underwriting evaluations, and other information gathered and archived under different data systems. This was because the initial request was to only automate the assessment contract review process and to allow analyses of contractor behaviors and home improvement pricing trends.

ISD has requested each Program Administrator to consider a transfer of all the data collected with the exception of personally identifiable information (PII) or Sensitive Personal Information (SPI). This will allow ISD to establish a set of criteria that, when triggered during the assessment contract process, would invoke further analysis of the application by the Program Administrator or ISD. This could include the examples quoted in the December report, such as a senior, age 65 or older who has requested more than 50% utilization of the available credit line disclosed to him or her. Pending delivery of the complete data set, ISD continues to work with the Program Administrators on interim delivery of reports to meet its ad-hoc needs.

Branding the County's PACE website, LAPACE.org, as a County-sanctioned information one-stop on PACE.

The LAPACE.org website has been modified and is being referenced and offered to the public as a County-sanctioned source for PACE information on program risks, repayment of the project costs through the annual property tax bill, and information on various consumer protection measures, including dispute resolution processes. We have requested that each Program Administrator reference the website on all their marketing materials that are specific to Los Angeles County, and that they revise the marketing guidelines for their contractor networks to require the same.

Establishing and funding a position in Consumer and Business Affairs focused on handling PACE inquiries and complaints, and passing information to ISD related to Program enhancements for review and possible implementation.

ISD has established a positive dialogue with the Department of Consumer and Business Affairs (DCBA) about certain program matters. However, initial efforts by ISD focused on establishing a County-maintained PACE consumer hot-line (877-785-2237) and meeting with the Program Administrators to understand their processes related to reviewing and dispositioning consumer complaints on the various issues listed in the table above. Because of the low number of complaints and the high percentage of complaints resolved, ISD has not pursued a more formal role for the DCBA in this area. ISD will continue to monitor this on an ongoing basis.

Development of Industry Best Practices

The County's two Program Administrators have undertaken efforts to develop Industry Best Practices related to PACE consumer protection standards, ostensibly for adoption by PACE Program Administrators statewide. This represents their effort to develop high, consistent standards across the PACE industry. On March 22, 2016 your Board directed ISD to determine and report back in 60 days how the County could implement Industry Best Practices throughout the County for all residential PACE providers, including those that are offering residential PACE programs to cities within the County, operating under other PACE administrative contracts; i.e. programs where the County has no control over program administration, implementation, and consumer protections.

While ISD will respond to this motion timely, ISD is also reviewing its existing Agreement with the two PACE providers to implement elements of the Industry Best Practices into those agreements.

The existing PACE provider Agreements will be amended to include additional program requirements especially around PACE provider marketing and outreach, contractor marketing and outreach management, provision of PACE project data, and enhanced consumer protections actions and reporting. ISD expects to implement these changes into the existing PACE provider Agreements by June 1, 2016.

ISD Staffing Adjustments for Improved Administration of the PACE Program

As the program has grown, it became apparent that staffing changes were needed to separate ongoing operational duties from financial and administrative management responsibilities. To that end, ISD is realigning financial processes from the County Officer of Sustainability (COS) to ISD's Administration and Finance Service (AFS) and is requesting additional staffing to handle increased workload in FY 2016-17 budget.

Also, effective May 9, 2016 ISD is allocating an internal resource to provide needed contract compliance monitoring. We are also adding a resource to provide overall PACE

Program Management for ISD. None of these changes will incur any cost to the County as they will be funded from the administrative fees collected from the Program Administrators.

Bond Authority

It is noteworthy that the total dollar value of financed projects plus projects that have already been approved is approaching the program's current bond authority limit of \$500 million. A request to increase this limit will be brought to your board in the near future. However; as mutually agreed upon by ISD and TTC, the amount of this increase may be limited until the program enhancements discussed in this report are implemented and, if program quality and protection concerns are not ensured to the Board's, ISD's or TTC's satisfaction, the County residential PACE program may be slowed over the short term.

Conclusion

Consumer protection and contractor compliance are this program's highest priorities. The steps taken since program inception, and the additional steps being implemented and considered have contributed to the program's relatively successful accomplishments to date. However, we will continue to focus on ensuring long-term program quality and a positive consumer experience, all within a consumer's ability to repay the project's costs through the Annual Secured Property Tax Bill.

We will continue to report to your Board on a quarterly basis through the calendar year 2016 on the status of the PACE program.

Should you have any questions, please contact Dave Chittenden at (323) 267-2103, or via email dchittenden@isd.lacounty.gov. You may also contact Joseph Kelly at (213) 974-2101, or via email at jkelly@ttc.lacounty.gov.

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 Executive Officer, Board of Supervisors
 Auditor-Controller
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